

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3215-01
BILL NO.: HB 1244
SUBJECT: Revenue Dept.; Taxation and Revenue-General-Income
TYPE: Original
DATE: February 3, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$24,300,000)	(\$24,500,000)	(\$24,800,000)
Outstanding Schools Trust	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	(\$24,300,000)	(\$24,500,000)	(\$24,800,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Elementary and Secondary Education (DES)** state this proposal earmarks for deposit into the Outstanding Schools Trust Fund, three and one-eighth percent of the cumulative amount claimed by all corporate taxpayers as a deduction for federal income tax liability.

Officials of the **Department of Revenue (DOR)** state this proposal eliminates the limit on the corporate federal income tax deduction on January 1, 2000. This proposal will have little or no administrative impact to the Department of Revenue.

Officials of the **Office of Administration (COA)** state this proposal restores the full federal income tax deduction for corporate income taxpayers, and replaces that revenue with General Revenue in the amount of 3.125% of total federal income tax liability.

COA staff state that their estimate for restoring the full federal income tax deduction is from the FY 2001 Consensus Revenue Forecast and Budget and Planning's Corporate Income Tax Simulator. This proposal states that an amount equal to 3.125% of total federal income tax liability of corporate taxpayers be transferred from the General Revenue Fund to the Outstanding Schools Trust Fund. In FY 2001 the amount of federal tax liability of corporate income taxpayers is approximately \$776.7 million, 3.125% of this amount is \$24.3 million. A one percent annual growth rate was assumed.

This proposal could result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

Loss to General Revenue Fund

Increase in funds transferred to Outstanding Schools Trust Fund	(\$24,300,000)	(\$24,500,000)	(\$24,800,000)
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$24,300,000)</u>	<u>(\$24,500,000)</u>	<u>(\$24,800,000)</u>
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OUTSTANDING SCHOOLS TRUST FUND

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
<u>Loss to Outstanding Schools Trust Fund</u>			
Increase in Federal Corporate Tax Deduction	(\$24,300,000)	(\$24,500,000)	(\$24,800,000)
<u>Income-Outstanding Schools Trust Fund</u>			
Transfer from General Revenue Fund	\$24,300,000	\$24,500,000	\$24,800,000
ESTIMATED NET EFFECT ON OUTSTANDING SCHOOLS TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent that they pay corporate income taxes. The increase in the federal corporate income tax deduction would cause small businesses to pay less state income tax.

DESCRIPTION

This bill authorizes a 100% state income tax deduction for federal income taxes paid by a corporation. Under current law, corporations are only allowed to deduct 50% of federal income tax paid. The bill also replaces the lost transfers to the Outstanding Schools Trust Fund resulting from the increased deduction for federal income taxes paid by corporations with general revenue funds. The bill will apply to tax year 2000 and thereafter.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

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Office of Administration
Department of Revenue
Department of Elementary and Secondary Education

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "e" at the end.

Jeanne Jarrett, CPA
Director
February 3, 2000